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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL UPDATE APRIL 21 - 25

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UNEMPLOYMENT INCREASES ONE FULL POINT TO 9.6%

[¶1. \(U\)](#) According to Spain's National Institute of Statistics (INE), the unemployment rate increased to 9.6% in the first of quarter of 2008, a full point increase from the last quarter of 2007. This increase represents one of the highest quarter to quarter increases in 15 years. The housing construction slowdown was one of the primary factors behind the increase, and in fact the construction and services sector suffered the greatest job losses. Meanwhile the agriculture and industry sectors experienced a slight growth, but not enough to overcome the losses in the other sectors. Second Vice President and Economy and Finance Minister Pedro Solbes recently warned that in the next two years the rate of unemployment could reach as high as 10 percent. INE data shows that the total number of unemployed in the first quarter reached 2,174,200. (Cinco Dias, 4/25; EFE, 4/25)

IMF SAYS NO MORE ROOM FOR ADDITIONAL FISCAL STIMULUS

[¶2. \(U\)](#) The IMF's Europe Director, Michael Deppler, conceded that Spain had the maneuvering room to use fiscal policy to stimulate the economy and therefore supported President Zapatero's 2008 euro 10 billion fiscal stimulus package approved by the Council of Ministers April 18. However, Deppler said there was little additional margin for fiscal stimulus. He noted that Spain had enjoyed 14 years of uninterrupted strong growth, but he added that Spain had allowed imbalances to arise, especially the very high current account deficit of the balance of payments. Therefore, Spain needed supply-side, not demand-side stimulus, reforms to increase productivity and competitiveness. Specifically, the energy, distribution, transportation and telecommunications sectors needed further market opening and competition. The IMF is forecasting 1.8% growth for Spain in 2008 and 1.7% in [¶2009](#). Other forecasters are somewhat more optimistic. The Bank of Spain forecasts 2.4% economic growth in 2008 and 2.1%

in 2009. (Comment: The growth numbers are not terrible compared to projected growth rates for other major economies, but they are a major slowdown compared with the 3.8% growth Spain enjoyed in 2007.) (Expansion, 4/22; WSJ, 4/21)

BANKS RETURNING TO CAPITAL MARKETS

13. (U) Spanish banks have carried out three senior debt (bond) issuances this month in what may be a sign of the reopening of capital markets to Spanish issuers. In the first week of April, Santander placed 2.5 billion euros in three-year debt, the first issuance realized by a Spanish bank this year. The cost was considered high -- 90 basis points over the 3-month Euribor rate. The same week, the Caja Madrid savings bank issued 1.25 billion euros in three-year debt with an even higher rate of Euribor plus 105 basis points. Last week, Santander placed 2.5 billion euros in two-year debt with a smaller differential of 75 basis points. In the second half of 2008 and all of 2009, Spanish banks will need to renew over 100 billion euros of expiring debt. (ABC, 4/21)

198 SUSPECTED OF TAX EVASION VIA LIECHTENSTEIN

14. (U) The Tax Agency has forwarded to the Anticorruption Prosecutor the names of 198 Spaniards suspected of tax evasion for having hidden money in Liechtenstein. The funds involved surpass 200 million euros, and the tax evasion is believed to be more than 24 million euros. The information was based on leads provided to Spanish authorities by German authorities in February after they found over 1,000 Germans implicated in evasion via accounts in Liechtenstein. (Finance Ministry press release, 4/23)

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"EVERYBODY EXPECTS THE SPANISH TELECOMS ACQUISITION"

15. (U) So says the Financial Times, Paul Betts in his April 25 European View column. Betts believes that Europe will be soon be dominated by four big operators: Telefonica, Deutsche Telekom, France Telecom, and Vodafone. The columnist reports that there are rumors that Telefonica is once again considering acquiring the Dutch operator, KPN. The Spanish company had thought about buying KPN three years ago but opted not to because of the Dutch government's 43 percent stake in the company. The Dutch government subsequently sold its shares, so that consideration no longer applies. Betts says a KPN acquisition would strengthen Telefonica's position in Germany. Telefonica may be considering the KPN deal more urgently now because the chances of the newly elected Berlusconi allowing Telefonica to merge with Telecom Italia are remote, so buying KPN may be a more viable way for Telefonica to strengthen its position in Europe. (FT, 4/25)

AIRLINES LOSE 9% OF MADRID-BARCELONA PASSENGERS TO THE AVE

16. (U) Many travelers between Madrid and Barcelona are choosing the high-speed AVE train over the traditional airplane. In the first month after the opening of Madrid-Barcelona AVE service, airlines lost 187,174 passengers on Europe's busiest route compared to March 2007 figures. After adjusting for the fact that Holy Week was in March 2008 but not March 2007, it appears that the number of air passengers was down about 9 percent. The impact on Madrid-Malaga air service after the AVE began to serve that route at the end of last year has been similar. The airlines have not cut the number of flights. They are utilizing smaller planes, offering special promotions and pampering the business traveler. (El Pais 4/22)

EC INVESTIGATING MADRID AIR POLLUTION

17. (U) The EC announced this week that it was investigating the level of air pollution in Madrid. In its written notice, the EC's Environment Commissioner, Dimas Stavros, said the Commission was aware of Madrid's poor air quality and requested more information about measures the city had adopted to limit pollution. Although Madrid's air pollution does not exceed currently mandated limits, it is considerably higher than the limits established for the year 2010. One monitoring station in Madrid has already recorded 18 days this year in which the level of nitrogen dioxide in the air has exceeded the current limit, the direct result of auto emissions, according to El Pais. The debate over whether to adopt additional measures is ongoing. In January, former Environment Minister Cristina Narbona publicly urged the Madrid city government to adopt more restrictive measures. Madrid mayor Alberto Ruiz-Gallardon had earlier said that in 2008 the city would prevent the "most polluting vehicles" from entering the city. However, implementation of this plan has been delayed until 2010 by Madrid Environment Councillor Ana Botella. (El Pais, 4/23)

ASCO I RADIATION LEAK UPDATE

18. (U) 1,550 workers and others who have been in the Asco I nuclear power plant in Tarragona are being examined for radiation contamination as a result of the November 2007 leak that was discovered last month and made public this month (reftel). The Nuclear Security Council (CSN) announced that none of the 900 who have been examined so far have been contaminated. Among those given a clean bill of health were 40 schoolchildren who visited the plant in April after plant managers knew about the leak but before they disclosed it. Separately, the CSN found that a truck carrying soil and scrap from the plant to a junkyard on April 21 contained soil contaminated with cobalt 60 particles that likely were released in the November leak. Environmental groups have filed a request that GOS prosecutors investigate the leak and impose sanctions. They also have asked the EC to investigate whether the plant management and GOS authorities have applied correctly EC norms. (ADN, 4/23)

HERBALIFE BLAMED FOR 9 CASES OF LIVER TOXICITY

19. (U) U.S.-based company Herbalife is blamed for 9 cases of liver toxicity in Spain. According to the Health Ministry, the Center of Regional Pharmacological Vigilance in Asturias has recorded the cases and presumes they are due to use of Herbalife products manufactured between 2003 and 2007. Herbalife products are distributed worldwide by independent dealers. This disbursement process makes it difficult to

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trace the trail of the product, i.e. from origin to consumer. There are several cases in Spain that are yet unconfirmed and at least 9 known cases elsewhere in the EU, 6 in Iceland, 22 in Switzerland and Israel. More than half the recorded Spanish cases are from Asturias. The Ministry advised Spaniards to seek medical advice before purchasing supplements and warned against buying such products through "alternative channels" that do not offer guarantees. (Terra 4/21)
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